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TAGS: [AS](#) [PGOV](#)
SUBJECT: RUDD BESTS TURNBULL IN HIGH STAKES CLASH

Classified By: POLITICAL COUNSELOR JAMES COLE. REASON: 1.4 (C)

11. (C/NF) SUMMARY: Prime Minister Kevin Rudd and Opposition Leader Malcolm Turnbull put their credibility on the line over the government's relationship with a used car dealer - and Turnbull has emerged significantly damaged. In a spirited exchange in parliament, Rudd denied his office made representations on behalf of the car dealer. An email and testimony from a Treasury official suggested otherwise, the latter prompting Turnbull to call on Rudd to "justify his actions or resign". However, police have found the email to be a fake, and Rudd is in turn calling on Turnbull to resign. Meanwhile, Treasurer Wayne Swan is accused by the Opposition of misleading parliament by asserting that the car dealer received no "special treatment" despite emails and faxes indicating otherwise. The Opposition has called on Swan to resign. Media and political observers we've spoken with here are suggesting that this issue has backfired badly on Turnbull, but that Swan still has questions to answer. END SUMMARY.

"CAR GATE"

12. (U) The current imbroglio started in parliament on June 4 - the day of Joel Fitzgibbon's resignation as Defense Prime Minister - when Prime Minister Rudd angrily denied Opposition claims his office had made representations on behalf of a car dealer seeking financial assistance under a government credit scheme. The car dealer, John Grant, is a friend of Rudd's and donated a vehicle to Rudd. Also in parliament, Treasurer Swan denied Grant received special treatment from his office, and claimed he had no idea of the outcome.

ISSUE BLOWS UP

13. (U) However, on Friday June 19 the issue became hot when the Murdoch tabloids claimed an email was sent from the Prime Minister's senior economic adviser to a Treasury official, on behalf of Grant. That day, a Treasury official told a Senate committee under oath that it was his recollection that he received a short email from the Prime Minister's office but he could not be sure. During the hearing, emails were produced indicating significant interest by the Treasurer's staff in Grant's case. The Treasury official stated that it was clear to him that Grant was "no ordinary constituent", and was an associate of the Prime Minister and Treasurer. During the hearing, an Opposition Senator read out the text of an alleged email between the Prime Minister's adviser and the Treasury official. Opposition Leader Malcolm Turnbull called on the Prime Minister and Treasurer to justify their actions or resign, on the basis of the Treasury official's evidence.

RUDD COUNTER-ATTACKS

14. (U) That day, Rudd announced that the Auditor-General would investigate the matter. On Saturday June 20, Murdoch tabloids published the contents of the alleged email. The same day, Rudd referred the "alleged fake email" to the Australian Federal Police. He revealed a search by the Department of Prime Minister and Cabinet and the Treasury Department had not located the alleged email, and pointed to

the uncertainty of the Treasury official's testimony. Rudd challenged Turnbull to produce the email in parliament or resign, but Turnbull said he had not seen the email and that it had not come from the Opposition. Turnbull accused Rudd of using the email as a distraction from Swan. The Treasurer has released documentation purportedly showing other car dealers were treated similarly to Grant. On Monday June 22, the Australian Federal Police announced a preliminary investigation had found the email was "created by a person or persons other than the purported author of the email", and that an interview with the Treasury official was "consistent with preliminary forensic advice." In parliament, Rudd successfully moved a censure motion against Turnbull. Turnbull called for a wide-ranging judicial inquiry into the relationship between the government and Grant, and continued to call for Swan's resignation.

MEDIA CANES TURNBULL

15. (U) On Tuesday June 23, all the major newspapers carried front page headlines and commentary slamming Turnbull. Headlines included: "Fake email trips Turnbull"; "Ute affair backfires on shaken Turnbull"; "Turnbull's fake email nightmare"; "Utegate runs over Turnbull"; and "Backfire". Commentators opined that the issue has raised doubts about Turnbull's political character, and significantly damaged his credibility. However, the media continues to believe that Swan still has questions to answer.

TRIO LIKELY TO SURVIVE, TURNBULL BIGGEST LOSER

16. (C/NF) COMMENT: At the end of last week, sentiment in the Liberal party room had been that the party had a glimmer of hope of winning the next election, and that it should unite behind Turnbull. The email affair has undone the momentum he was building, and diverted attention from the case against Swan. While Turnbull will probably not lose his job, he has been diminished. One Liberal insider told us that Turnbull's enemies in the Right, no longer having Costello as an alternative, will let Turnbull lead the party to an election loss, and claim "I told you so." Barring the unforeseen it appears that Rudd is in the clear. Unless the Auditor-General's report is damning, Swan is likely to tough it out. When parliament ends this week (it next sits in August), the issue will probably cool. Despite the large headlines the political squabble has produced, we are not seeing a backlash by a cynical public. Ironically, the car dealer whose situation catalyzed the fighting ultimately didn't require government funds. END COMMENT.